CHAPTER TWO

The Passion Trap

How Attachment to Your Idea Can Sabotage Your Startup

"If you want a recipe for a startup that's going to die, here it is: a couple of founders who have some great idea they know everyone is going to love, and that's what they're going to build, no matter what."

—Paul Graham, founder, Y Combinator

According to Greek mythology, a boy named Icarus and his father, Daedalus, were held as prisoners on the island of Crete with no possible route of escape by land or by sea. But Daedalus, a skilled craftsman and inventor, had developed a plan to escape through the air. He secretly built wings for himself and Icarus, using reeds and feathers held together by wax. As Daedalus attached the wings to his son's arms, he warned him to fly at the right altitude. If he flew too low, the salt spray from ocean waves would soak his wings; if he flew too high, the heat of the sun would cause them to melt.

After escaping the island by flying out over the sea, Icarus was exhilarated by his newfound freedom. Despite his father's warning cries, he flew higher and higher, circling closer to the hot sun where the melting wax and feathers began to separate from his arms. The wings disintegrated, and Icarus plunged to his death in the water that now bears his name, the Icarian Sea.

The tale of Icarus parallels a story I have watched unfold again and again among passionate entrepreneurs. You take a risky leap. You experience the elation of newfound freedom. You boldly fly higher with single-minded conviction, ignoring nay-sayers who shout warnings from below. Then you find yourself in some irreversible crisis with no way to overcome gravity's downward pull.

The culprit in this story is something I call the *passion trap*, an all-too-real phenomenon that undermines many a new venture. The passion trap has roots in a basic truth: Your intense devotion to your business concept can bring danger along with its obvious benefits. Passion provides courage, energy, and optimism to propel you on your flight forward, but it also can blind and deafen you to helpful data and ideas. And it can lead you to believe that you're somehow immune to typical startup risks that wise founders have learned to respect and manage.

Anyone who cares deeply about his or her startup idea is subject to being snared by the passion trap. It is an equal opportunity affliction, governed by a set of well-known emotional patterns and biases that come with being human. Seasoned entrepreneurs and successful investors alike can recognize the damage done by unchecked or misdirected passion.

The good news is that you can have it both ways. You can bring high-flying enthusiasm and confidence to your startup and also protect yourself from being blinded—or blindsided—by your emotional attachment to an idea. Of the many forces that might derail your startup dreams, the passion trap is one that is squarely under your control. With awareness and the right practices, you can be certain that your entrepreneurial zeal will work for you rather than against you.

The purpose of this chapter is to explain why and how entrepreneurs get caught in the passion trap and what happens when they do.

I'll survey the damage done—in the form of six negative impacts of entrepreneurial passion—and examine the personality characteristics that predispose a person to getting caught in the trap. I'll also share a list of early warning signs to help you assess your own vulnerability. Then, in the second part of this book, I'll outline and explain six principles that will significantly elevate your odds of converting your big idea into a healthy, thriving business.

What Is the Passion Trap?

The passion trap is a self-reinforcing spiral of beliefs, choices, and actions that lead to critical miscalculations and missteps, mistakes such as significantly underestimating what is required to get a business off the ground; greatly over-assuming initial customer interest; making deep, irretrievable commitments to unproven concepts; and, in too many cases, rigidly adhering to a failing strategy until it's too late to recover.

One of the most dangerous aspects of the passion trap is the subtle, illusory way it takes hold. On the surface, it masquerades as the kind of heroic determination that fuels every startup success story. Passionate business owners show boldness, commitment, and clarity of purpose—qualities we all crave, qualities that *feel* good. Whether or not you identify with the confident swagger of Virgin Group's Richard Branson or Apple's Steve Jobs, it's hard to deny that they seem to enjoy what they do.

However, when an entrepreneur becomes too emotionally attached to an idea, boldness can be transformed into arrogance. Commitment narrows into a kind of tunnel vision. Cognitive biases filter and bend incoming data to conform to the founder's hopes and beliefs. Conversations are drained of objectivity. Even worse, these patterns are generally invisible to the founder, and their negative impact is usually delayed over time. Like a termite-infested home, the seemingly solid startup is eaten from within.

The Damage Done: Six Negative Impacts of Entrepreneurial Passion

Why should an aspiring entrepreneur be concerned about passion? What kind of startup problems are caused by misdirected enthusiasm? Among a range of impacts, the most common negative consequences fall into six major categories.

FOUNDER MISALIGNMENT

New entrepreneurs often struggle to find the best fit between what they personally bring to the table (strengths, weaknesses, needs, and hopes) and what the new business requires. The more passionate the founder, the more likely he or she will drift toward one of two extremes. At one end are founders who focus only on what they love to do, thereby neglecting other important areas of the business. In this scenario, the entrepreneur's passion becomes an end in itself, rather than something that fuels a higher business purpose. He or she confuses positive emotion with progress, and "feeling good" becomes the moment-by-moment measure of success. At the other extreme are founders who try to do it all, taking on roles that don't play to their strengths, spreading themselves too thin and refusing to let others take up the slack. In this case, new business owners become overextended and overwhelmed while the startup challenge grows in complexity, urgency, and scope.

I remember a conversation with Mark Williams in early 2006, not long after he raised his initial funding for his idea to create learning products for the Apple iPod. "I'm going way too fast," he told me, "and I'm going nowhere at all." Mark was working at breakneck speed with a couple of software developers to design and build Modality's first product prototypes. The work was obsessive but clunky—one step forward, two steps back. He was frequently traveling to New York and Philadelphia to wrestle with publishers over licensing deals and to California to meet with key Apple representatives. His remaining time, like scarce butter on toast, was spread thinly across everything else in the business—forecasting a budget, planning an office move, designing a brand, and assembling the pieces of an e-commerce portal—all of this while being continually jerked around by the unexpected daily crises that define startup life. "At that time, you're doing everything," he remembers. "You're not sleeping, of course. You're working around the clock. You're incredibly intense about meeting deadlines that are externally imposed. You're running this race against all kinds of unknowns."

Mark had reached a breakpoint that required him to expand his team and let go of key task areas. We talked about the importance of the founder's role in building longer-term capacity and discussed how he could position himself over time to exploit his strengths and cover for his weaknesses. Looking back, he remembers how challenging it was to "make a pit stop," as he called it, to bring on additional talent and offload some of the work. "There was such a great dialogue between the two or three people I was working with at the time," he recalls. "It was very natural and nonverbal—unconscious in many ways. We had been together from day one, so bringing additional people into the fold was a struggle for many, many reasons." But by doing this difficult work, Mark and his team began to generate much more MGP (his acronym for "making good progress") on all essential fronts.

A related problem with founder alignment is seen in freedom-crazed entrepreneurs, who dive headlong into startup adventures with little awareness of how their founding role in the new venture will adversely impact their loved ones and their well-grooved lifestyle. At the startup's inception, they envision a thriving venture and happy families all around. Then the realities of getting a business off the ground begin to sink in—the never completed to-do list, the mind constantly riveted to work-related challenges, and the fact that families and friends usually sacrifice more than expected. If expectations and reality are not aligned, new founders can be overwhelmed with unnecessary stress, fatigue, and guilt.

MISSING THE MARKET

Most startups suffer from anemic early sales, far below projections. In too many cases, the uncomfortable truth is that expected market demand for a new product or service, demand that is critical to the startup's viability, simply doesn't exist. A classic misjudgment on the part of the founding team is usually to blame: *We believe passionately in this product, so everyone else will, too.* It's a build-it-and-they-will-come mentality, where the entrepreneur knows better than the customers what will make them happy. Too often, this attitude gives rise to inspired products that never find more than a few customers, or brilliantly conceived solutions in search of problems to solve. Even when a robust market opportunity does exist, over-confident founding teams rarely invest enough time, energy, and resources into marketing and selling their offering. They assume that the world will beat a path to their doorway. And they routinely underestimate, or dismiss altogether, the strength of competitive forces that will impact success.

Based on votes of confidence from her many friends and colleagues, as well as encouraging market data and her own deep sense of personal mission, Lynn Ivey planned to start signing up future clients in May 2007, four months before The Ivey's scheduled grand opening. She decided to target wealthy families, who would pay out-of-pocket for an exclusive, club-like atmosphere, positioning The Ivey as an exception to other drab and depressing senior facilities. Her clients would be known as "members" and would pay an upfront membership fee of $3,000, as well as a weekly fee for attendance.

The Ivey's business plan forecast sixty pre-registrations from May to September, which would generate $180,000 in registration fees. According to plan, one hundred members would sign up by the end of 2007, resulting in over $1 million in client revenues for the year (a figure thought conservative by Lynn and her team, as it didn't include revenue from planned ancillary services, such as transportation, spa services, gourmet meals-to-go for caregivers, etc.).

To accomplish the sales task, Lynn hired a full-time marketing professional in January 2007 and engaged the services of a local marketing firm. She presented the sales plan to her experienced, well-connected board, and the group generated additional marketing ideas. Everyone seemed to know families who would be perfect prospects for The Ivey's services, and board members were eager to help open doors with prospective corporate and institutional partners.

By the end of June, after two months of active sales efforts, Lynn and her staff were confused as to why no members had enrolled but remained confident that there was still plenty of time to generate sales momentum before the fall. Throughout the summer, Lynn received regular inquiries from curious families, but she saw few prospects that were both qualified and willing to move forward. After a barren summer led to still no sales through September, her puzzlement turned to concern.

Ever the optimist, Lynn had a two-pronged explanation. First, discussions with prospective client families were proving to be more complex and lengthy than originally thought. Spouses and children of declining seniors were grappling with emotional family issues of denial and guilt, and major care decisions often involved multiple children living in different parts of the country. Second, even though The Ivey had invested in colorful wall-sized renderings of the facility and world-class marketing materials, Lynn became convinced that having a finished building to show prospective customers would be the key to generating expected sales. A series of delays had pushed the center's grand opening out until November, and she eagerly anticipated this event as the magical point when prospective members and their families could see the grandeur and comfort of the facility for themselves. No more abstract descriptions of the service—just oohs and ahs from touring families hungry to sign up.

But the lack of sales, combined with facility delays, were straining The Ivey's financial picture. During the third week in October 2007, Lynn communicated to her board the need for approval to raise more investor capital. "The Ivey has a need for additional funding," she wrote. "The primary reason is that I missed the boat completely when projecting that we would have sold many memberships from a virtual sales office prior to construction completion." In closing, she wrote "I'm really sorry that I'm having to request this at this time. However, I am confident that we will fill up as soon as prospective members begin to see the facility."

Not long afterward, Lynn and her staff moved into the new building, a dazzling 11,000-square-foot-resort-style lodge. The cedar shake and stone facility features a huge great room with wide windows, a massive stone fireplace, and vaulted ceilings, along with many other specialized rooms for activities and programming, a "tranquility room," a physical fitness room, a craft and movie room, a full-service kitchen, and a library.

Although families began signing up for on-site tours, sales remained alarmingly low. By the end of 2007, only a few members were on board, generating revenues of less than $10,000 for the year, approximately 1 percent of projected sales. Head scratching and sleepless nights continued. Worse yet, at a time when her every minute should have been focused on solving the mystery of The Ivey's missing market, Lynn was faced with the gargantuan task of coming up with another $1.5 million.

ROSE-COLORED PLANNING (OR NONE AT ALL)

Passion-trapped entrepreneurs are unrealistically optimistic. Secure in their belief that they've discovered a can't-miss idea, they view the startup journey through rose-colored glasses. Best-case assumptions drive plans and projections. Projected revenues and expenses are based on what's possible, rather than on what is practical or likely. As a result, founders caught in the passion trap are blissfully unaware of how long it will take, in realistic terms, to reach their financial breakeven point and what it will cost to get there.

As entrepreneur/investor Guy Kawasaki notes in his book *The Art of the Start*, aspiring entrepreneurs often fall into the trap of "top down" forecasting when sizing up a business idea.[1] The founder starts with a large number, representing a population or a market to be targeted, then works downward from that number to generate expected revenues for a new product. As an example, let's say you've developed a new technology for restaurant owners, priced at $10,000 per unit. There are about 215,000 full-service restaurants in the United States, and you believe that you will be able to capture 1 percent of this market over three years. This would result in 2,150 product sales or $21.5 million in top-line revenue over a three-year period. Sounds good. And even if you forecast only one-fifth of that number for year one, 430 units, you're on track for more than $4 million in sales in your first year.

But startup plans must be executed from the bottom up, where the math works differently. Suppose you can afford to begin with a team of three sales professionals, working full time, who can each sift through two hundred leads a month to generate twenty onsite demonstrations. Let's assume these twenty demonstrations will land each salesperson an average of two sales per month, equaling 1 percent of monthly leads (if you think that's a pessimistic number, you've never tried to get a restaurant owner to part with $10,000). This sales rate would generate twenty-four sales for the year for each salesperson, or seventy-two sales for the team as a whole. That's $720,000 in first-year revenue, with a lot of assumptions baked in about having skilled, active salespeople on board, supported by marketing, technology, and infrastructure, all of which will require significant upfront costs and ongoing management and servicing expenses. Based on these bottom-up assumptions, you would need a team of thirty salespeople working over three years to achieve your goal of capturing a 1 percent market share. This is not outside of the realm of possibility, with the right product, the right plan, the right funding, the right talent, and the right breaks, but cracking one percent of any market generally requires a herculean effort. Simply forecasting downward from a large available market won't make it so.

Although passion can lead to over-optimistic planning, a surprising number of fast-moving founders avoid planning altogether. They plunge forward and manage by feel, without an accurate read on where the business stands. They tend to operate in a financial fog, and, lacking the focus of a clear game plan, they can be pulled and distracted by an endless stream of new money-making ideas. As someone who hears a lot of new business pitches, I'm struck by how often ambitious entrepreneurs visualize global expansion or exotic product extensions long before they have won their first paying customer. As management researchers Keith Hmieleski and Robert Baron noted in the June 2009 *Academy of Management Journal*, highly optimistic entrepreneurs often see opportunities everywhere they look, a distracting tendency that can interfere with their ability to effectively grow their new ventures.[2]

This challenge applies to seasoned businesspeople as well as first-timers. In fact, Hmieleski and Baron have shown that experienced entrepreneurs are actually *more likely* to suffer from overconfidence and "opportunity overload" than those with no startup experience.[3] Entrepreneur Jay Goltz may be a case in point. He writes a highly insightful column for *The New York Times*'s Small Business Blog, has launched many ventures over the past two decades, and employs more than one hundred people in five successful businesses. "Did I mention that four of my businesses failed?" he writes. "In my case, it wasn't market conditions or competition or lack of capital . . . It was my penchant for jumping into things with blind optimism and not enough thought. I'm a recovering entrepreneuraholic. I'm trying to stop."[4]

AN UNFORGIVING STRATEGY

There has never been, nor will there ever be, a shortage of new business ideas or aspiring founders willing to commit time, sweat, and tears to bring them to life. Unfortunately, many of these ideas, perhaps the vast majority, don't represent achievable business opportunities. Jeff Cornwall, director of the Center for Entrepreneurship at Belmont University, estimates that 40 percent of startup failures are simply due to businesses that should never have been launched in the first place.[5] John Osher, successful, serial entrepreneur and creator of hundreds of consumer products, goes even further. He has developed a well-circulated list of classic mistakes that he and other entrepreneurs have made, and first on his list is what he considers the most important mistake of all. "Nine of ten people fail because their original concept is not viable," he says. "They want to be in business so much that they often don't do the work they need to do ahead of time, so everything they do (going forward) is doomed."[6]

Because early ideas are so frequently off the mark, surviving and thriving as an entrepreneur means treating the startup journey as an exercise in uncertainty. The future is unknowable. No matter how thoroughly you research your target market, or how rigorously you plan your startup launch, your first strategy will most likely be wrong. So, too, will your second. In the few weeks, months, or years it takes to launch your product or service, the world will change. New obstacles and opportunities will appear as you accelerate along your learning curve. Unpredictable events will occur, some good, some bad, and highly anticipated outcomes may never materialize. For this reason, startup success requires that you allow for quick, early failures as you put your ideas into action. This means building plenty of flexibility into your business model so that you can integrate relevant lessons and adapt to new conditions.

Unfortunately, passionate and overconfident founders sometimes put the lion's share of their available resources into a singular, high-cost strategy, leaving no cushion or wiggle room for things to go wrong, or to go differently, as they inevitably will. This bet-the-farm approach can require major outlays of capital before key assumptions can be tested in the real world. All the eggs are in a single basket, and few good options remain when the basket hits the ground.

When bulldozers first began clearing and grading The Ivey's future site, Lynn Ivey believed that her prime location and the high quality of her planned facility, surrounded by thousands of wealthy, aging households, would prove to be the cornerstone of her dream. The building was carefully designed and custom built from the ground up. Every brick, curtain, color, and piece of furniture conformed to the greater ideal. But constructing the facility and getting a full staff in place required a $4.5 million capital commitment that would, over time, weigh Lynn down like an anchor around her neck. In addition to building and maintenance costs, zoning and regulatory factors constrained her ability to use the building for other commercial purposes, with the notable exception of hosting weekend events like wedding receptions and retreats.

It seems Lynn was caught in a classic unforgiving strategy: Large upfront capital requirements had used up most of her "dry powder" and incurred a heavy debt burden, all before her basic concept could be tested. She lacked a viable contingency plan for revenue shortfalls, which proved to be severe, and, other than approaching friends and family for private loans, she found few options when her money began to run out. She considered opening The Ivey to all older adults, creating a kind of "well seniors club," but worried that the concept wouldn't mix well with her mission of serving cognitively challenged older adults. The lack of members eventually forced her to bring her prices down by nearly 70 percent, to a level equal to other adult daycare centers (many of them nonprofits with dramatically less overhead). This increased the number of members slightly, but put The Ivey further into a financial hole. She would need to find a consistent, high-level revenue stream if The Ivey was to survive.

New businesses that call for heavy investment in facilities or infrastructure before the first offering of a product or service incur much greater risk than most other startups. Lynn Ivey did consider, very early in her planning process, the idea of leasing temporary space in order to test her concept with a lower expense base, but she determined that available spaces wouldn't allow for her envisioned atmosphere of luxury and comfort.

THE REALITY DISTORTION FIELD

Andy Hertzfeld, a member of the first Macintosh computer software development team in the early 1980s, credits fellow team member Bud Tribble with coining the phrase "reality distortion field" to describe the driving, charismatic influence that Apple co-founder Steve Jobs, carried over the team. "The reality distortion field was a confounding mélange of (Jobs's) charismatic rhetorical style, an indomitable will, and an eagerness to bend any fact to fit the purpose at hand," he writes. Once they understood Jobs's ability to bend reality, team members puzzled over how to respond to it. "We would often discuss potential techniques for grounding it," Hertzfeld writes, "but after a while, most of us gave up, accepting it as a force of nature."[7]

Steve Jobs is certainly a force of nature, and his confident, forceful style has driven Apple Computer to great heights over the years. The same quality drove him to leave Apple in order to launch NeXT Computer in 1985. Jobs believed that his NeXT cube system, aimed mostly at high-end academics, would change the world of computing. Jobs secured a high-profile investment partner in Texas billionaire

Ross Perot, who later called the investment "one of the worst mistakes I ever made," then sprinted forward in pursuit of his big idea. After building a state-of-the-art manufacturing facility ready to crank out 150,000 units a year, NeXT sold only 50,000 computers over the life of the company. The product was critically acclaimed, even coveted, in technology circles, but it was much more expensive than competing systems and so advanced that the typical user found limited practical value. "He believed that the company couldn't fail," wrote technology columnist, Colin Barker, in October 2000. "In the end, the story of the NeXT cube became a study in failure. NeXT was a high-profile disaster, a computer system that the world admired but wouldn't buy."[8]

The NeXT example provides a cautionary tale for all entrepreneurs because every founding team creates its own reality distortion field somewhere along the startup path. "Drinking the Kool-Aid" is a very common early-phase business activity. After building overly rosy plans, founders are swayed by psychological pressure to seek out data that validate their vision and to avoid or deny bad news. Unspoken group norms promote disdain, even hostility, toward people who raise concerns or point out contradictory data. These pressures combine to create a kind of psychological cocoon around the startup team and its founding premise. The business is assumed to be on a destiny-driven path.

Steve Jobs is only one of many successful entrepreneurs who have found that world-class intellect and leadership skills won't protect them from the occasional dangers of reality distortion. J.C. Faulkner, the most talented entrepreneur I have ever worked with, temporarily lost touch with his own solid instincts when he attempted, two years after his tremendously successful launch of Decision One Mortgage (D1), to start a new telemarketing subsidiary in April of 1998. Despite concerns on the part of his original D1 leadership team, J.C. lured an intact management team from another company to set up and run the new business, to be called Home Free Mortgage, and hired sixty call center employees to occupy an entire floor of office space. He decided to oversee the new initiative himself, thinking that he wanted to keep his D1 leadership fully focused on growing the core business. But members of his D1 team grew increasingly worried about cracks in the Home Free model and the lack of experience in its management team. Uncharacteristically, J.C. brushed off these concerns.

When mortgage markets took a nosedive a few months later, J.C. and his original team spent most of a day debating Home Free's deteriorating financial situation. The conversation was skillful and brutally honest—so much so that the reality and gravity of the situation became abundantly clear. J.C. decided to shut down Home Free the next morning. It was an excruciating decision; he had worked tirelessly for more than six months to recruit the Home Free team and negotiate a deal to extract them from their previous company (a fact that prompted some dark humor from his banker, who told him that "he dated the company longer than he was married to it").

Although J.C. had arranged for his original team members to have ownership stakes in Home Free, he decided to absorb the entire loss himself. Looking back, he jokes that he personally earned $8 million that year from D1 and *lost* $8 million on Home Free. But more painful than the financial loss was the experience of telling employees that he was closing the company after only four months, and then shortly thereafter meeting with his local D1 staff to explain his mistake.

The launch and demise of Home Free Mortgage serves as a kind of photographic negative for all that went right about the D1 launch. D1 is the positive case study and Home Free is the anti-case, occurring because a talented entrepreneur got swept up in passionate pursuit of a pet project that never would have withstood his usual level of scrutiny and analysis. "In a sense, I was in a hurry to prove that D1 wasn't luck," J.C. now says. "I had some ego confusion, so I was very quick to try to prove that I was smart. What I did—very quickly and very expensively—was prove just the opposite." I once asked him what he would he have done differently, had his judgment not been fogged by overconfidence. "I would have dug into their financials," he says. "I would have spent more time. I would set up a real clear structure, start out with a small amount of money, get profitable on a small scale, and then replicate it. I would have done the things I did when I started D1."

AN EVAPORATING RUNWAY

Until the new business concept has proven itself and is generating a sustainable level of revenue, startup founders must deal with a pile of ever dwindling resources. The first five negative impacts all increase the likelihood that a new entrepreneur will run out of cash, time, support, or personal will before he or she can find an adequate revenue stream. Exerting additional pressure on desperate founders is a rule I find myself repeating to every aspiring entrepreneur who shares startup plans with me: *Everything will take longer and cost more money than you think.* This principle underscores the importance of developing realistic, hype-free estimates regarding your new venture's pathway to profitability, so that you can set realistic timelines, secure adequate resources, and identify behaviors and practices that will maximize your startup's staying power.

The Core Pattern: How the Passion Trap Works

It's clear that the above negative consequences can drag down otherwise talented founding teams and significantly reduce a startup's probability of success. But, specifically, how does entrepreneurial passion play a role in these outcomes? How can positive emotions, so vital in propelling a great idea forward, also undercut a startup's odds of success?

The answer lies in a simple, sneaky pattern, a looping interaction between internal factors (such as a founder's biases, perceptions, and choices) and forces that operate outside the founder (such as actions, data, and results). The pattern feeds and strengthens existing beliefs and biases—what we think is true, and what we *hope* to be true—about the startup idea we are putting into action.

THE FOUR INTERDEPENDENT STEPS OF THE CORE PATTERN

The core passion-trap pattern consists of four interdependent steps, each leading to the next (as shown in Figure 2-1):

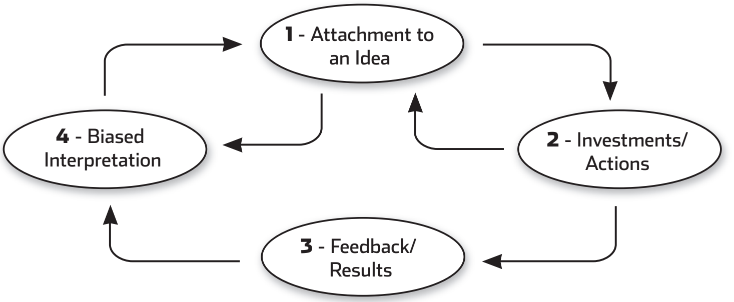
1. ***Attachment to an Idea.*** Whether through an incremental process or a single bolt of inspiration, you latch onto a compelling business concept: a cool product, an innovative service, or an unstoppable mission. It's good. You know it. And you can feel your enthusiasm building. The more you think about it, the more excited you get. Your emotional attachment grows, and leads to . . .

2. ***Investments and Actions.*** You invest time, energy, money, or other resources and move forward with your idea. This can include many different actions, depending on how far you have gotten along your startup path—sharing your idea with colleagues, exploring the Web, talking to potential customers, hiring team members, or building a prototype. These actions give rise to . . .

3. ***Feedback or Results.*** Early actions always lead to something that can be seen, heard, and evaluated—the reactions of friends and family, information about customers and competitors, a duct-tape version of your first product, or even early sales results. These results are then subject to . . .

4. ***Biased Interpretation.*** At the heart of the passion trap is the enthusiastic entrepreneur's well-documented tendency to notice and embrace information that supports existing beliefs and to discount or completely miss contradictory evidence.

Figure 2-1. The core pattern of the passion trap.



> This selective filtering process is governed by a set of subtle but powerful cognitive biases operating just beneath the founder's awareness. As a result, he or she develops an even stronger emotional attachment to the idea, and the cycle rolls forward. Wash. Rinse. Repeat.

Not only does each step in the pattern lead to the next in a self-reinforcing cycle, but smaller reinforcing loops are at work as well. As discussed in Chapter One, when you invest in an idea and start to make it real (oval 2 in Figure 2-1), you strengthen your attachment and commitment to it. And, as your attachment to the idea grows, so does the likelihood that your biases will distort incoming reality (oval 4 in Figure 2-1).

THE ROLE OF COGNITIVE BIASES

If there's a single psychological concept that every aspiring entrepreneur should understand, it's the phenomenon of cognitive biases. Cognitive biases are mental and emotional filters that help us make sense of the constant barrage of information coming at us every minute of every day. They determine how we frame our interactions with the world, where we focus our attention, what patterns we select, what data we see as important versus irrelevant, and how we reach conclusions. Like software programs running quietly in the background of our mental computer, these biases operate continually and reflexively. As with blinking and swallowing, they are always at work but rarely noticed.

For the most part, cognitive biases are tremendously helpful, allowing us to make quick judgments and navigate through an increasingly information-rich world. It would be impossible to get through our day without them. But they also play a central role in perpetuating the passion trap, leading to errors in reasoning and the recycling of flawed assumptions and choices. In one sense, launching a business is nothing more than a rapid series of decisions, one after the other, and startup founders must continually improve their ability to recognize patterns, analyze these patterns efficiently, then make the right calls, all at a rapid-fire pace. In growing D1 from a blank sheet of paper into a successful national competitor, J.C. Faulkner didn't think of his business as being about mortgages. Instead, he focused on making quick, high-quality decisions and on building a team and a culture that could do the same. "That's the core business we were in," he says. "Making great decisions efficiently."

In the startup environment, the importance of making good decisions is complicated by the naturally high levels of passion and emotion associated with launching a big idea. As we saw in Chapter One, the mechanisms that reinforce our beliefs operate at a neurological level, where thoughts and emotions are tightly intertwined. No choice is made at a purely intellectual level. In fact, a good deal of research in cognitive psychology and neuroscience suggests that emotions drive our decision making processes, even when we are completely unaware of their role.[9]

Of the many biases that sabotage our startup reasoning, here are a few that every startup founder should understand, as they are especially likely to trip up entrepreneurs who are passionate about their idea:

- ***Confirmation Bias***—our tendency to select and interpret available information in a way that confirms our pre-existing hopes and beliefs. Lynn Ivey, for example, heard a lot of positive feedback about her idea for a high-end adult daycare center, but she can also recall some notable dissenters: a former healthcare system CEO, who thought in-home care services would be a formidable competitive force; a board member, who was concerned that customers wouldn't pay such high fees; and an expert on services for the aging, who felt a for-profit center would never work. These views were easily dismissed and drowned out by supporters, whose opinions paralleled her own. In retrospect, the dissenting views form a pattern of concern. But at the time, they were just isolated exceptions to a clear majority.
- ***Representativeness (belief in the law of small numbers)***—the tendency for entrepreneurs to reach conclusions based on a

small number of observations or a few pieces of data. Entrepreneurship researchers have concluded that startup founders often fall victim to this bias, because they operate in uncertain and fast-moving environments where facts can be hard to obtain.[10] The new founder who hears positive reviews from three out of four friends and then assumes that 75 percent of the general population will react similarly is under the spell of representativeness. It's also in play when a wanna-be entrepreneur reads a magazine's worth of success stories and assumes much higher success rates than actually exist across the general population.

- ***Overconfidence/Illusion of Control***—these are actually distinct cognitive biases, and each has both positive and negative impacts on entrepreneurial success.[11] Overconfidence leads founders to treat their assumptions as facts and see less uncertainty and risk than actually exists. Illusion of control causes business owners to overrate their abilities and skills in controlling future events and outcomes. Both of these tendencies drive entrepreneurs to develop rose-colored plans and fail to prepare for inevitable bumps in the road. One study of startup ventures across a range of industries, for instance, found that more than 80 percent failed to meet confidently established market share targets.[12]

- ***Anchoring***—our mind's tendency to give excessive weight to the first information we receive about a topic or the first idea we think of. This bias is all about the stickiness of first ideas and impressions. It encourages founders to cling to an original idea or, if pressed, to consider only slight deviations from the idea instead of more radical alternatives. An example of anchoring is the role it plays after initial sales or cost targets are set by a founding team. Even if the forecasts are wildly optimistic (as they often are), they continue to serve as anchors for future planning processes, influencing forecasts toward unrealistic levels.

- ***Escalation of Commitment ("sunk cost" fallacy)***—the tendency to continue or increase commitment to an endeavor based on prior investment of money, time, and energy. Startup founders may refuse to abandon a losing strategy in an attempt to preserve whatever value has been created up to that point. Paul Graham, accomplished entrepreneur (Viaweb) and investor (Y Combinator), refers to this phenomenon as the "still life effect," based on his experience as a painter. He noticed his tendency to continue painting a poorly arranged composition (a bunch of stuff "plonked" on a table) simply because of the time already invested in the project. This parallels a common approach among startup teams. "You come up with a random idea, plunge into it, and then at each point (a day, a week, a month) feel you've put so much time into it that this must be *the* idea . . . Plunging into an idea is a good thing. The solution is at the other end: to realize that having invested time in something doesn't make it good."[13]

Icarus Qualities: Who Is Most Vulnerable to the Passion Trap?

The story of Icarus flying too high for his own good serves as a stark reminder that certain human qualities can become liabilities if taken to extremes. Optimism, for example, is a typical entrepreneurial trait that improves performance, *but only up to a point.* In fact, moderately optimistic people have been shown to outperform extreme optimists on a wide range of tasks and assignments.[14] This is true for a number entrepreneurial characteristics, qualities that can be amplified to unhealthy levels by unrestrained passion. I call them "Icarus qualities" because they are vital to startup flight and must be present at some level (remember, Icarus was warned about flying too low as well as too high), but when overdone, these qualities can cause founders to fly too close to the sun:

- ***Confidence/Optimism.*** Successful entrepreneurs tend to believe in a brighter future. They are not easily deterred by others' negativism or criticism. However, at extreme levels, confidence begins to function as arrogance or blind certainty. The role of overconfidence in startup failure has been well-documented, leading Mathew Hayward and two collaborators to formulate a "hubris theory of entrepreneurship," asserting that the high-risk world of startups attracts people who are overconfident by nature, and that this overconfidence, in turn, plays a key role in perpetuating high venture failure rates.[15]

- ***Need for Achievement.*** Call it drive, ambition, or competitiveness. Successful entrepreneurs desire to fly higher and higher and are unshakably committed to their cause. At extreme levels, this high level of drive can show up as a volatile, my-way-or-the-highway approach that alienates partners and customers alike.
- ***Independence.*** Successful entrepreneurs are often willing, or even inclined, to strike out on their own. They can shoulder the pangs of loneliness that all startup founders experience. But extremely independent business owners can become stubborn and aloof, sealing themselves off from access to constructive feedback, resources, and other sources of help and support.
- ***Creativity/Imagination.*** Many entrepreneurs are classic dreamers, full of ideas and aspirations. They see potential where others see nothing. They ingeniously create awe-inspiring products. Unfortunately, extremely imaginative founders can fall in love with ideas that other people don't "get" or need. They lose touch with what matters most to others—to customers, team members, investors, etc.
- ***Risk-Taking.*** Effective startup founders are skilled at evaluating and assuming calculated risk. At its extreme, a propensity for risk-taking drives entrepreneurs to take risks for the sheer excitement involved (much like gambling) or, in con-

cert with too much optimism, to believe that their risk-taking is aligned with some greater destiny.

- ***Follow-Through/Focus.*** This is a critical capability for early-stage businesses, where resources are usually scarce and distractions abound. But a passion-trapped founder with single-minded focus can get stuck in a narrow tactical rut, stubbornly sticking to an outmoded game plan, while the startup ship takes on more and more water.

In Chapter Three, I will outline a full set of entrepreneurial characteristics that are conducive to startup success. At this point, I encourage you to compare yourself against the above list and identify where your personality may be vulnerable to overheated enthusiasm. As you do so, consider this: Was Icarus a born risk-taker, wired to be impulsive and overconfident? Or was he swept up by remarkable events that might lead any person to want to cavort with the gods? After all, it's not every day that a guy escapes from a lengthy captivity *and* finds himself flying like a bird. Put differently, was Icarus driven by an enduring trait or caught up in a temporary state?

These same questions apply to your own personality and your role as an entrepreneur. Even if you possess only moderate levels of a trait, you might experience, during the first heady days of a startup launch, temporary shifts in emotion or behavior that *look and feel very much like an extreme form of that trait.* If you suspect that you are "not yourself" during the adrenaline-crazed rush of the startup phase, you may be right. Whether trait- or state-driven, the above tendencies taken to extremes will increase your odds of being trapped by your startup passion.

Early Warning Signs: Are You in Danger of Being Trapped?

It's hard to differentiate between healthy optimism and blind optimism. Below is a list of early warning signs to help you evaluate whether you are in danger of undercutting your odds of startup success. The more accurately the following sentences describe you or your startup, the more likely you are exposing your new business to unnecessary risk. Are you . . .

- Thinking or saying, "This is a sure thing?"
- Losing patience with people who point out risks or shortcomings in your plan?
- Believing your solution is better than anything on the market?
- Feeling full of energy but lacking focus and traction?
- Measuring progress by how good you feel?
- Expecting most of your sales to come from word-of-mouth or "viral" marketing?
- Assuming that you are entering a space with little or no competition?
- Counting on immediate revenue to avoid financial problems?
- Plotting global domination before releasing your first product?
- Lacking clarity about where your business stands financially?
- Delaying product releases until they are perfect?
- Preventing things from happening without your involvement and approval?
- Loving your product, with no idea who will buy it?
- Hearing great "buzz" but finding few (or no) paying customers?
- Finding yourself saying (about your customers), "They don't get it yet, but they will!"?
- Thinking that planning is a waste of time?

Moving Forward: Six Principles for Making the Most of Entrepreneurial Passion

As you continue on your startup journey, the core patterns and cognitive biases described in this chapter will continue to play a role. You cannot completely erase them, nor would you want to. They will help you cut through the noise and clutter of the startup process, and your passion for your business will bring the energy necessary to accelerate your startup forward. But if you agree that passion poses dangers as well as benefits, you can apply a set of six principles to squeeze the most out of your startup enthusiasm while not being trapped by it. These principles also correspond to, and offer solutions for, the six areas of negative impact discussed earlier in this chapter:

Area of Negative Impact	Corresponding Principle
Founder Misalignment	***Founder Readiness.*** Chapter Three will show you how to take an honest look at yourself and what you bring to the table as a founder; how to align your skills and your role to achieve your startup goals; and how to purify your passion, taking it to a higher, healthier, more productive level by ***understanding*** it, ***connecting*** it, ***strengthening*** it, and ***directing*** it.
Missing the Market	***Attach to the customer, not your idea.*** This principle addresses the primary paradox facing entrepreneurs: Passion is an inner phenomenon, but all healthy businesses are rooted ***outside*** the founder, in the marketplace. Chapter Four will explain what a ***market orientation*** is and how it will bring your venture an edge over product-centric startups.
Rose-Colored Planning	***Ensure your passion adds up.*** Chapter Five will illustrate how your business can be reduced to a simple, clear, and compelling ***math story***. You will learn the power of clearly articulating your business model and plan, how to think about

	profitability and returns, and a few principles for funding your venture so that your passion has room to thrive.
Unforgiving Strategy	***Agility.*** No amount of planning can accurately predict the unexpected twists and turns imposed by reality. Chapter Six will focus on the importance of finding ways to test and adapt your concept as early as possible, iterating rapidly and continually improving the fit between your big idea and the marketplace.
Reality Distortion Field	***Integrity of Communication.*** Agility enables success only if your decisions and discussions are grounded in reality. Integrity of communication places a premium on the quality of early-stage conversations and sets a tone for truth-telling and healthy debate. Chapter Seven will focus on how to cultivate high-integrity communication and will outline four personal attributes that help founders burst the "feel-good" bubble: curiosity, humility, candor, and scrutiny.
The Evaporating Runway	***Staying Power.*** In an immediate sense, most startups fail because they run out of money or time. Chapter Eight will outline two sets of approaches for extending and strengthening your available runway: (1) ***venture-level strategies***, such as launching close to the customer, addressing big risks early, raising more money than you think you will need, and committing resources wisely, and (2) ***founder-level strategies***, such as feeding your fire, focusing on achievable goals, balancing performance with recovery, and persevering without attaching.